

## 2.4

# Alternative Financing

Historically, Federal appropriations have provided the bulk of financing for Federal facility projects. In an era of steady or decreasing Federal budgets, however, funds are not always available from direct appropriations, and financing greening projects might present a challenge. In some cases, there is no cost for these projects—green materials, systems, or procedures can often be substituted for their less-green counterparts at no cost. In other cases, immediate savings from integrated design will pay for the cost of greening projects. In many cases, however, an initial investment will be needed to support improvement projects. There are a variety of approaches that Federal facility managers can use to finance greening efforts.

## Opportunities

When considering greening strategies, the team should look for synergies that yield reductions in both first costs and life-cycle costs. If it is possible to downsize HVAC equipment as a result of reduced cooling or heating loads or to reduce landfilling costs by reusing demolition waste, the amount of necessary financing will be reduced. (See *Section 4.1 – Integrated Building Design* for more information on saving money through integration.)

## Technical Information

**FEMP offers technical assistance, training, and guidance manuals** to assist Federal agencies in identifying, evaluating, and selecting financing mechanisms. Additional information on these mechanisms, training opportunities, and resource materials are available on the FEMP Web site.

**Energy Savings Performance Contracts (ESPCs)**, authorized by the Energy Policy Act of 1992, allow *Energy Service Companies (ESCOs)* to assume the capital costs of installing renewable-energy systems or systems for conserving energy or water. ESPCs can be used for leased or owned facilities. There are two main types of ESPCs. Under a *Site-Specific ESPC*, the energy service company guarantees a fixed amount of energy cost savings throughout the life of the contract with the facility (up to 25 years), and payments to the ESCO must be less than cost savings in energy and related operations and maintenance (O&M). Agencies retain the remainder of the cost savings for themselves. *Regional Super ESPCs* (established by DOE) or *Area-wide ESPCs* (established by the Army) are similar to conventional, site-specific ESPCs except that they are designed to encompass more than one site. Furthermore, under these *Indefinite Delivery–Indefinite Quantity* contracts, facilities within a defined geographic area can take advantage of streamlined procedures by issuing a site-specific delivery order within an established contract vehicle. This saves time and resources that would have been needed to plan and issue

a competitive procurement. In addition to the Regional Super ESPCs, there are also *Technology-Specific Super ESPCs* that cover the entire nation for procuring specific technologies, such as solar-thermal concentrating systems, photovoltaics, and ground-source heat pumps. The legislation authorizing ESPCs also requires that performance be verified; FEMP provides guidance regarding measurement and verification (see the FEMP Web site).

**Utility Incentive Programs** provide another possible source of project financing. Utility programs may include rebates, shared savings programs, partnership programs, and technical assistance. (Some utility programs are in flux because of the uncertainty surrounding deregulation of the industry.) In efforts to address this new competitive market, FEMP has established a Federal Utility Partnership Working Group; GSA has established area-wide utility contracts to cover energy audits, designs, construction, operations, and maintenance; and DOD has developed a model agreement with the Edison Electric Institute (EEI) to expedite contracting between DOD and EEI. In one example of such a partnership, FEMP developed a three-way partnership to finance electrical equipment upgrades at Fort Lewis, Washington. Under this agreement, Tacoma Public Utilities managed the work by the energy services company and paid for 85% of the cost; Fort Lewis paid for 15%. Tacoma Public Utilities plans to recoup its investment by selling unused energy to the Bonneville Power Administration. Fort Lewis will realize a \$700,000 annual savings for its \$1.8 million investment.

## References

FEMP offers several resources to assist agencies in considering and obtaining alternative financing. Documents and information on other resources are available through the FEMP Web site ([www.eren.doe.gov/femp/](http://www.eren.doe.gov/femp/)). These resources include (1) *Energy Savings Performance Contracts or Utility Energy Services Contracts: Guidance on Choosing a Financing Option*; (2) workshops for Federal employees with information they need to participate in the Super ESPC Program; (3) seminars for the private sector on ESPCs; (4) Super ESPC delivery order guidelines; (5) *Practical Guide to Savings and Payments in Super ESPCs*; (6) tools for regional and technology-specific ESPCs; (7) two classroom courses on utility incentives, one to present a detailed review of financing options and one on deregulation effects and how to handle competitive power procurements; (8) a Utility Action Kit to assist energy managers in implementing projects; (9) model documents, such as the EEI/DOD Model Agreement; and (10) measurement and verification guidelines.

## Contacts

U.S. Department of Energy, FEMP Help Desk, (800) DOE-EREC (363-3732), and see the list of DOE Regional Office contacts on the FEMP Web site, [www.eren.doe.gov/femp/](http://www.eren.doe.gov/femp/).